

Message Text

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ACTION EUR-10

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LIMDIS

C O R R E C T E D C O P Y (P A R A 4 R E N U M B E R E D T O 3)

E. O. 11652: GDS
TAGS: EFIN, FR
SUBJECT: REACTION OF FRENCH OFFICIALS ON EC FLOAT

ZFF BONN ONLY

1. CONTRARY TO THE OPTIMISM BEING PUBLICLY DISPLAYED BY FINMIN GISCARD, KEY FRENCH OFFICIALS HAVE TOLD US PRIVATELY THEY ARE QUITE APPREHENSIVE ABOUT WHAT WILL HAPPEN TO EUROPEAN CURRENCIES ONCE EXCHANGE MARKETS OPEN ON MONDAY. BRUNET, DIR., ECONAFF, MINFON AFF, SAID HE THOUGHT GISCARD WAS MUCH TOO OPTIMISTIC. HE HIMSELF FEARED FLOAT MIGHT GO AS HIGH AS 7 PERCENT ABOVE FEBRUARY 12 RATE, WHICH WOULD MEAN REAL TROUBLE FOR FRENCH EXPORTS. BERNARD SAID THE SITUATION WAS COMPLETELY WITHOUT PRECEDENT

(FOR ONE THING, THIS WAS THE FIRST TIME THE COMMERCIAL FRANC HAD EVER FLOATED), AND NO ONE COULD PREDICT WHAT WOULD HAPPEN. IF THE EC CURRENCIES FLOATED SIGNIFICANTLY ABOVE THE FEBRUARY 12 RATE, THE PROBLEMS CREATED FOR FRANCE WOULD BE NOT ONLY ECONOMIC BUT POLITICAL AS WELL, FOR THE COMMUNISTS HAD ALREADY BEGUN ATTACKING THE FLOAT ON GROUNDS THAT IT WOULD HURT FRANCE'S COMPETITIVE POSITION AND COST JOBS. IN THE CIRCUMSTANCES,
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BERNARD SAID THE FRENCH AUTHORITIES VERY MUCH HOPED THAT THE US WOULD FIND IT POSSIBLE TO TAKE MEASURES ON ITS SIDE WHICH WOULD HELP KEEP THE EC RATES DOWN. IN THIS REGARD, HE FOUND OUR INTENTION TO REMOVE INVESTMENT CONTROLS AT THE END OF '74 ILLOGICAL AND SAID HE KNEW THE FRENCH GOVERNMENT WOULD WELCOME SOME MODIFICATION OF THIS DECISION.

2. BERNARD SAID THE DECISION TO PARTICIPATE IN THE EC FLOAT HAD BEEN A DIFFICULT ONE FOR THE GOF, AND IT HAD BEEN TAKEN WITH GREAT RELUCTANCE. HE SAID THAT THE PRINCIPAL CONSIDERATION HAD BEEN THE DESIRE NOT TO CAUSE IRREPARABLE DAMAGE TO THE CAUSE OF EUROPEAN MONETARY UNION, WHICH WOULD HAVE BEEN THE CASE IF THE FRANC HAD STAYED OUT OF THE FLOAT. HE ALSO DENIED PRESS SPECULATION THAT THE FRENCH HAD INSISTED ON THE 3 PERCENT REVALUATION OF THE MARK AS THE PRICE FOR PARTICIPATING IN THE FLOAT. HE SAID THIS INCREASE WAS A MATTER OF COMMON CONSENT AND WAS INTENDED NOT TO HELP FRANCE'S COMPETITIVE POSITION VIS- A- VIS THE GERMANS BUT TO ENHANCE THE CREDIBILITY OF THE EC RATE STRUCTURE IN THE EYES OF SPECULATORS.

3. FINALLY, BERNARD SAID THAT MONETARY EVENTS WERE EVOLVING SO RAPIDLY AND THE FUTURE OUTLOOK, PARTICULARLY THE IMPLICATIONS FOR TRADE, WAS SO UNCERTAIN, THAT HE WONDERED IF IT MIGHT NOT BE BEST FOR EVERYBODY TO ADOPT A LOW PROFILE ON TRADE FOR A WHILE, CONTINUING THE PREPARATORY WORK AS BEFORE BUT AVOIDING PUBLIC DISCUSSION.
KUBISCH

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